23 May 2018

Dairy Crest Group plc ("Dairy Crest")

Preliminary Results Announcement for the year ended 31 March 2018

Highlights

- Group revenue up 10% to £456.8m
- Cathedral City revenue grows by 6%
- Spreads brands increase revenue by 10%
- Sales channels developing for GOS beyond infant formula
- Adjusted profit before tax* rises 3% to £62.3m; reported profit before tax (after net exceptional items**) up 345% to £179.2m
- EBITDA* increases 8% to £90.2m
- Pension surplus of £93.9m – an improvement of more than £200m
- Net debt* of £265.7m to fund higher value stock
- Innovation accounts for 14% of total revenue***

Financial Summary

	Year ended 31 March		
	2018	2017	Change
Revenue	**£456.8m**	**£416.6m**	+10%
Adjusted profit before tax	**£62.3m**	**£60.6m**	+3%
Profit before tax	**£179.2m**	**£40.3m**	+345%
Adjusted basic earnings per share	**36.7p**	**35.6p**	+3%
Basic earnings per share	**106.6p**	**23.7p**	+350%
Pension surplus / (deficit)	**£93.9m**	**£(109.6)m**	n/a
Net debt	**£265.7m**	**£249.8m**	+6%
Final dividend	**16.3p**	**16.3p**	-

*Alternative performance measures:
The Group uses alternative performance measures (APMs) as key financial performance indicators to assess the underlying performance of the Group. The APMs used are widely used industry measures and form the measurement basis of key targets. Definitions of the APMs discussed throughout this document and a reconciliation to the equivalent statutory measure are detailed in Note 22.
** Further detail on exceptional items can be found in Note 5.
*** Revenue from new products launched within the past three years

Commenting on the results, Mark Allen, Chief Executive, said:

"This has been a year of considerable progress for Dairy Crest. We have delivered a strong performance, broadly maintaining our industry-leading margins against a backdrop of unprecedented cost inflation in the butters market. Our brands are in good shape. Cathedral City has had a good year growing value, volume and market share, and we see plenty of room for further growth for this industry-leading brand. We have seen good momentum in revenue growth going into the new financial year.

"With much of the groundwork now complete, we expect sales of demineralised whey at infant formula grade to accelerate further over the coming year. We have already established ourselves as a leading supplier for organic GOS and we are also making good progress in developing a market for GOS beyond infant formula, having carried out research which has shown the meaningful benefits of using this product in animal feed.

"We will continue to invest in our brands, supply chain and infrastructure to ensure that we are well positioned to capitalise on future growth opportunities."

For further information, please contact:

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A video interview with Mark Allen and Tom Atherton is available from the investor section of the Group's website ***www.dairycrest.co.uk/investors.*** There will be an analyst and investor meeting at 10:30 (UK time) today at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED, following which an audiocast of the presentation will also be available on the website.

Dairy Crest

Dairy Crest is a leading British dairy company built on a passion to create exceptional food, loved by every generation.

Fundamental to our business is the high quality milk which is supplied by approximately 330 farmers in Devon and Cornwall who supply exclusively to us and with whom we have a close working relationship. Our exacting standards ensure that we consistently produce exceptional cheese and whey.

Our production, packaging and distribution facilities in Davidstow and Nuneaton are two of the most advanced of their kind, enabling us to deliver unrivalled quality and consistency. We have a track record of investing in manufacturing excellence; most recently at our demineralised whey and galacto-oligosaccharides (GOS) facilities at our Davidstow site in Cornwall. We recognise that superior facilities deliver significant operational advantages.

Cost benefits achieved through an efficient supply chain and the high quality and consistency achieved by our operating facilities allow us to invest in innovation, marketing and promotions to grow leading brands like Cathedral City.

Chief Executive's Review

I am pleased to report that our brands have delivered a strong combined performance this year. Cathedral City has been the key driver but our spreads and oils brands have also produced excellent growth, allowing us to deliver overall Group revenue growth of 10%. Country Life has had a more challenging year due to unprecedented input cost inflation. More infant formula customers for both demineralised whey and GOS have been secured and we are also making progress in selling GOS to the adult and animal nutrition markets under our trade mark brands, Promovita and Nutrabiotic.

Managing fluctuations in input costs is part of the normal course of business at Dairy Crest. Although there has been considerable volatility in the dairy markets during the year, our operating margin has remained comparatively stable which is testament to the resilience of our business model.

We have made significant progress in reducing our pension liabilities so the fund is now in surplus on an accounting basis, due largely to the agreed change to the indexation of pensions in payment. Cheese stocks, which have risen significantly in value due to the increase in the input cost of milk, built up during the year which led to net debt increasing to £265.7 million. The stock will be sold through this year and working capital requirements are starting to ease as milk and cream costs have reduced.

Market background

Following a two year period of extremely low milk prices, they started to rebound in August 2016 and the price increases continued for much of the first half of our financial year. As the milk supply started to increase, we reduced our milk price in the latter part of the year, although it stayed above 30 pence per litre until March 2018 and remains one of the highest in the country.

Milk supplies were affected across the country in the fourth quarter due to the severe weather conditions. Farmers and delivery drivers had to contend with extremely challenging conditions but our team worked hard to minimise any adverse impact.

Cream prices, which determine the input costs for our butter business, rose by 65% between April and August 2017 to reach £2.85 per litre. They fell back to just below £2.00 per litre by the end of the financial year although they have started to firm again. As a comparison, the average cream price over the previous three years was £1.20 per litre. We were able to partially offset the cost impact on our Butters, Spreads & Oils division by selling excess cream and whey butter generated in our Cheese & Functional Ingredients business.

The input cost inflation resulted in considerable increases in the retail price of butter over the period. Spreads, and Clover in particular, were the major beneficiaries as consumers switched to cheaper alternatives. Retail prices also started to increase for cheese in the second half of the year.

Healthy brand revenue growth

In aggregate, revenues of our four key brands (Cathedral City, Clover, Country Life and Frylight) grew by 6% during 2017/18. Positive volume growth for Cathedral City, Clover and Frylight was offset by Country Life which we chose not to promote for most of the year to protect margins.

Brand	**Market**	**Volume***	**Value***
Cathedral City	Cheese	+3%	+6%
Clover	Spreads	+3%	+7%
Country Life	Butters	-20%	0%
Frylight	Oils	+12%	+13%
Total		**0%**	**+6%**

* Dairy Crest volume and value sales 12 months to 31 March 2018 vs 12 months to 31 March 2017

Cathedral City revenues increase

Cathedral City delivered a strong performance over the year, generating volume growth of 3%, revenue growth of 6% and an increase in market share. In comparison, IRI Kantar data for the 52 weeks ended 24 March 2018 showed that the total everyday cheese market grew by 2% in volume and 5% in value terms.

Cathedral City is a top 20 food grocery brand in the UK. It can be found in more than half of all fridges across the country and represents 55% of branded cheddar sales. It is by far the largest cheddar brand in the UK by retail sales value and is more than three times the size of the number two brand. However, with around 65% of everyday cheese sales still attributed to private label products, there is plenty of room for further growth.

The Cathedral City snack bar was launched at the end of the previous financial year. Sales are accelerating and it is now present in most convenience stores as well as increasingly being stocked in the ‘on-the-go’ section at the front of supermarkets. Snacking is a core part of the Cathedral City growth strategy and we are developing further innovations in this area, as well as expanding sales channels to include travel hubs, for example.

One of our more recent innovations, Cathedral City Spreadable, won Product of the Year 2018 in the UK cheese category of the world’s largest consumer survey award for product innovation. We were also pleased to be the lead sponsor on a new ITV quiz show – Britain’s Brightest Family - which attracted an average of almost 4 million viewers in a prime time evening slot for a 15 week period in 2018.

Spreads brands grow strongly; butter contends with considerable price inflation

All four of Dairy Crest’s spreads brands grew revenues over the year, delivering a combined uplift of 10% compared to the overall spreads market which was flat, according to IRI Kantar data.

Following on from its success in winning the spreads category Product of the Year 2017 award, Clover delivered another strong year of both volume and revenue growth at 3% and 7% respectively. As the only major spreads brand with no artificial ingredients it has clearly positioned itself as the leading UK dairy spread with 20% of the spreads market by volume. We expect to launch Clover Lighter with no artificial ingredients later this year.

Our other spreads brands also performed extremely well. They all grew revenues and gained market share over the year. Willow and Vitalite, the UK’s number one dairy-free spread, both generated high double digit volume and revenue growth. Dairy Crest’s overall volume share of the spreads market has now reached 30%.

Country Life revenue was flat this year but volumes fell by 20% as we chose not to promote the brand in light of the considerable input cost inflation. According to IRI Kantar, average butter prices on shelf increased by over 20% during the period, compared with spreads prices which grew by just 2%.

We relaunched the Country Life packaging in November 2017 to further emphasise its British heritage which has resonated well with customers, and promotions were introduced again at the end of the year.

Frylight growth continues

Frylight, the one calorie cooking spray, has delivered double digit volume growth each year since we acquired it in 2011. In 2017/18 volumes increased by 12% and revenues grew by 13%, confirming its position as the UK's leading oil brand. The oils market in the UK grew volumes by 3% and revenues by 6%, according to Kantar data for the 52 weeks ended 25 February 2018.

Frylight represents 9% of total UK oil market sales and 88% of the spray oil market. As the Frylight range has increased, so too has its presence on retailers' shelves. During the year the brand benefitted from an additional 5,000 new distribution points and is now listed in all the major supermarkets and discounters. Itsu, the Asian-inspired food chain, has also started using Frylight in its 70 UK shops.

Establishing customer base for demineralised whey

We manufacture approximately 50,000 tonnes of cheddar at our Davidstow creamery each year which results in a by-product of whey. By removing the water and 90% of the minerals, we produced 24,000 tonnes of demineralised whey (D90) this financial year. Operational stability improved during the year and we focussed our efforts on establishing our credentials as a trusted supplier which has taken longer than expected and also involved some promotional activity. This has resulted in an exceptional item which is described in further detail in the Financial Review. In spite of that, Functional Ingredients revenue increased by 51% over the year.

Quality controls surrounding ingredients for infant formula are rightly demanding. In partnership with Fonterra we welcomed many potential customers to Cornwall during the year to showcase the technical operation, process management and the quality and provenance of the product. Our high quality, traceable milk supply should mean that we can generate a premium price for our product going forward, particularly as customers are placing even greater emphasis on transparency and product traceability.

Demand for dairy products remains strong in China, with overall dairy imports into the country increasing by 20% for the 12 months to January 2018 and infant formula manufacturers reporting strong revenue growth.

In conjunction with our sales partner, Fonterra, we acquired business for D90 from a number of global and regional infant formula manufacturers by the end of the financial year and we expect demand to continue to build in the coming months.

Galacto-oligosaccharides (GOS) research continues

GOS is a prebiotic derived from the lactose in cow's milk and is used in infant formula to help support babies' natural defences, increase mineral absorption and aid digestive comfort. GOS feeds 'friendly' bacteria within the large intestine, encouraging them to thrive and helping to maintain a healthy gut.

As with demineralised whey, it has taken time for the plant to stabilise but through our sales and marketing partner, Fonterra, we have been selling GOS to infant formula manufacturers throughout the year and sales are growing steadily. Volumes are expected to increase in the year ahead. Demand for organic infant formula in particular is growing more rapidly and we have established ourselves as a leading supplier in this area.

Nutrabiotic GOS is the brand we have developed for use in animal feed. There are a number of challenges facing the meat industry currently, including a rise in global meat consumption, growing awareness of quality and safety and regulatory changes such as restrictions on the use of antibiotics. GOS can, through the creation of a healthy gut, help to improve efficiency of animal production and potentially reduce the need for antibiotics.

Over the past year we have conducted a number of academic and commercial trials on chickens and pigs with significant results. The trials have shown that GOS has a positive impact on a number of aspects of the animals' physiology which lead to weight gain and improvements in the feed conversion ratio. We now have a substantial amount of empirical data to illustrate these aspects which is leading to significant interest from potential customers.

Our research on pigs shows that weight gain continued after GOS was withdrawn from the feed, indicating that GOS only needs to be included in the early stages of an animal's diet, and not throughout its lifetime, to obtain the desired results. This helps to reduce the feed cost for the producer which is a key consideration in our conversations with potential customers.

GOS-fed chickens outperformed the control groups in terms of weight gain and were also more efficient in converting feed. In addition, we have research that demonstrates the benefits that GOS brings in supporting the resilience of bird health.

Additional studies on calves and fish have started recently. We are working in conjunction with a number of academic institutions and commercial partners to conduct trials, including Danisco Animal Nutrition – part of DuPont. We also have interest from a number of global feed manufacturers and animal producers, with the level of attention continuing to grow.

Promovita GOS is the brand we use for human nutrition. The global digestive health food market is worth over £44 billion and growing. There are a number of major food companies looking into the potential of including GOS in their products to promote gut health, increase fibre content and replace sugar. Our primary focus at the moment is on yoghurt, dairy beverage and cereal manufacturers which we think are best suited to GOS's dairy foundations.

Focus on innovation

Innovation is at the heart of our business. Our innovation centre is now firmly established on the campus of agricultural university, Harper Adams. 14% of our revenue this year came from innovations developed during the previous three years, driven largely by the success of Clover with no artificial ingredients. We are particularly proud of this product as it is still the only dairy spread with these 'natural' credentials.

In March 2017 we launched the Cathedral City snack bar which significantly enhanced our adult snacking offer. Take up by retailers has been high and we are making firm progress in establishing the snack bar in the 'on-the-go' category. Innovation will continue to drive our business forward.

In 2016, as part of the review of our Corporate Responsibility programme, we committed to deliver annual increases in the percentage of recyclable packaging used across our product groups, with the goal to be 100% recyclable by 2021/22. At present, 80% of all our packaging is recyclable.

As signatories of Courtauld 2025[1] and working members of WRAP[2], we are working to improve packaging, manufacturing efficiencies and reduce consumer food waste. We are also acutely aware of the need to provide responsible packaging with on-pack advice to consumers regarding storage and recycling. With one in three tonnes of food produced globally being wasted, the effect of household food waste is a pressing issue.

[1] Courtauld 2025 is a voluntary agreement that brings together organisations across the food system – from producer to consumer – to make food and drink production and consumption more sustainable.
[2] WRAP is a charity focussed on maximising the value of waste by increasing the quantity and quality of materials collected for re-use and recycling.

Our innovation team is looking at ways in which we can reduce the packaging of our products whilst maintaining freshness, hygiene and food safety, while also increasing the percentage of our packaging that is fully recyclable.

Driving efficiencies

We are a simple, lean and efficient business. We have five well-invested operating sites employing around 1,100 people. At the end of 2017 we moved production at our butters and spreads site in Kirkby onto a 24/7 manufacturing schedule which allows us to be more flexible in the face of changing market conditions. The restructuring has resulted in one-off exceptional costs of approximately £5 million but will reduce the annual cost base by £2.5 million from the next financial year onwards. We intend to sell surplus land on the site for redevelopment which should cover these exceptional costs.

The project to replace our bespoke IT systems with a standardised product is progressing well. We completed the first phase in early 2018 which incorporated our finance and payment systems. Phases two and three are underway and will bring supply chain and receipts onto the new platform. Once the new system has been fully rolled out, we expect to make annualised cost savings of around £5 million from 2019/20.

Looking ahead

This has been a year of considerable progress for Dairy Crest. We have delivered a strong performance, broadly maintaining our industry-leading margins against a backdrop of unprecedented cost inflation in the butters market. Our brands are in good shape. Cathedral City has had a good year growing value, volume and market share, and we see plenty of room for further growth for this industry-leading brand. We have seen good momentum in revenue growth going into the new financial year.

With much of the groundwork now complete, we expect sales of demineralised whey at infant formula grade to accelerate further over the coming year. We have already established ourselves as a leading supplier for organic GOS and we are also making good progress in developing a market for GOS beyond infant formula, having carried out research which has shown the meaningful benefits of using this product in animal feed.

We will continue to invest in our brands, supply chain and infrastructure to ensure that we are well positioned to capitalise on future growth opportunities.

Mark Allen

Chief Executive

22 May 2018

Financial Review

Overview

We have continued to make progress in 2017/18. We have managed the business through a period of high input cost increases and delivered broadly stable margins compared to the prior year. More importantly, we have also continued to invest in the future:

- our functional ingredients business is growing and we are developing opportunities for GOS beyond infant formula markets;
- we have delivered significant operational changes at our butters and spreads site in Kirkby that deliver increased flexibility and efficiency; and
- we have delivered the first phase of an IT transformation project that will allow us to reduce complexity and costs.

These initiatives further develop the business and will support future growth.

Overall, the financial performance of the Group during the year has been robust despite significant price inflation in the first nine months of the year. Revenue increased by 10% and product group profit increased by 5% to £71.8 million. Reported profit before tax increased 345% to £179.2 million due to the exceptional income of £130.9 million recognised in relation to the reduction in pension scheme liabilities.

We continue to tightly manage the balance sheet, although the scale of input cost inflation has temporarily inflated stock valuations and levels of debt at 31 March 2018. Other working capital has generated cash and the pension fund has moved from a £109.6 million deficit at 31 March 2017 to a £93.9 million surplus at 31 March 2018, primarily as a result of moving the basis of indexation for pensions in payment from RPI to CPI. This is a permanent reduction in future scheme liabilities that would otherwise have to be funded by the Group.

Revenue

We continue to provide product group analysis consistent with prior years to assist the users of the Financial Statements, although the Group continued to operate as one segment throughout the year ended 31 March 2018.

	2018	2017	Change	Change
	£m	£m	£m	%
Cheese & Functional Ingredients	**277.2**	254.8	22.4	8.8
Butters, Spreads & Oils	**174.2**	150.7	23.5	15.6
Other	**5.4**	11.1	(5.7)	(51.4)
Group	**456.8**	416.6	40.2	9.6

Revenue increased by 10% to £456.8 million with increases across all parts of the business except “Other” which comprises third party warehousing revenue.

Cheese revenues were up 4% as we started to recover increases in the cost of milk. In the second half of the year we focussed on pricing in a market where milk input costs were high. We chose not to discount too heavily, especially in the final quarter, as we are confident of selling year end cheese stocks in 2018/19. The Group benefitted from increased sales of our Davidstow by-products, cream and whey butter, as well as D90 and GOS which saw Functional Ingredients revenue increase 51%.

Butter revenue was up 25%, reflecting price increases achieved to mitigate the unprecedented increase in butter input costs across 2016 and 2017. In this environment, Country Life volumes fell as promotional activity was scaled back, however other own-label and bulk butter sales increased. Spreads revenue growth of 10% reflected volume gains across all of our brands and momentum is building – sales in the second half were 13% ahead of last year. Frylight achieved 13% revenue growth and 12% volume growth in the year.

Profit on continuing operations

	2018	2017	Change	Change
	£m	£m	£m	%
Cheese & Functional Ingredients	**50.1**	42.8	7.3	17.1
Butters, Spreads & Oils	**21.7**	25.5	(3.8)	(14.9)
Total product group profit	**71.8**	68.3	3.5	5.1
Acquired intangible amortisation	**(0.4)**	(0.4)	-	-
Group profit on continuing operations (pre-exceptional items)	**71.4**	67.9	3.5	5.2

Overall product group profit increased by £3.5 million to £71.8 million and the margin decreased slightly to 15.7% (2017: 16.4%). This margin is after charging all central corporate costs and includes £2.4 million profit (2017: £3.0 million) on the sale of closed depots that were not disposed of as part of the sale of the Dairies business in 2015 to Müller UK & Ireland Group LLP. These depot sales will not repeat in future years. Their treatment as operating income is consistent with the treatment in previous years of the related closure costs. Future sales of ex-manufacturing sites such as Crudgington, Shropshire will be classified as exceptional, consistent with the historic treatment of the related closure costs.

Cheese & Functional Ingredients product group profits increased by 17.1% and the margin increased to 18.1% (2017: 16.8%). This reflects an improved Functional Ingredients performance and a rising dairy market where selling price increases were achieved. However, the full impact of milk input cost increases will not be felt in cost of sales until 2018/19 given the year-long average maturation cycle of our cheese.

Butters, Spreads & Oils product group profits of £21.7 million (2017: £25.5 million) were £3.8 million lower than 2017 with profit margins of 12.5% (2017: 16.9%) reflecting the competitive butters and spreads market and significantly higher butter input costs. However, margins in the second half increased markedly versus the 3.7% delivered in the first six months of the year as cost pressures abated somewhat.

Exceptional items

Pre–tax exceptional gains from continuing operations amounted to £118.0 million (2017: £19.1 million charge).

Exceptional income of £130.9 million was recognised in relation to the reduction in pension fund liabilities resulting from the change in the indexation benchmark for pensions in payment from RPI to CPI. Exceptional income of £0.7 million has also been recognised on the sale of a closed dairy facility in Fenstanton, Cambridgeshire.

Exceptional income was partly offset by certain exceptional charges.

Firstly, the Group incurred £5.4 million of restructuring costs at the butters and spreads facility in Kirkby where a number of initiatives have been implemented in order to improve efficiency across the site. These one-off costs should, in time, be broadly offset by the sale of surplus land on the site.

Secondly, we have recognised a net exceptional charge of £5.6 million with respect to the Functional Ingredients facility at Davidstow. This comprises £8.5 million of costs partly offset by £2.9 million received in settlement of project related litigation. Demineralised whey and GOS production stabilised over the course of the year, however £3.8 million of exceptional commissioning production costs were incurred, of which £2.9 million were in the first half of the year. In addition, sales of both demineralised whey and GOS have been underpinned by promotional activity in infant formula markets where complex product formulation results in long lead times for customers switching their ingredients suppliers. We have prudently written down the carrying value of certain formulations recognising these factors. This level of exceptional spend is higher than anticipated at the start of the year, albeit significantly below the £19.0 million incurred in the year ended 31 March 2017. There will not be any further exceptional items in 2018/19 in relation to this project.

Finally, we have recognised a non-cash write down of £2.6 million for certain legacy IT assets that are being replaced as part of a two year programme to replace our core IT infrastructure. This work will enable a significant reduction in the complexity and costs of the Group's core processes and should deliver savings of approximately £5 million per annum following its completion in early 2019.

Exceptional items in the year ended 31 March 2017 related predominantly to the building and commissioning of the demineralised whey and GOS facilities at the Davidstow creamery in Cornwall.

Finance costs

Finance costs of £9.5 million increased by £1.8 million in the year. This reflects lower levels of interest capitalisation following the completion of the building of the demineralised whey and GOS facilities at Davidstow. Capitalised interest costs in the year amounted to £0.3 million (2017: £3.1 million) and the charge in the income statement is now broadly equal to cash costs.

Interest cover excluding pension interest calculated on total product group profit was 7.8 times (2017: 9.1 times). This is comfortably above the 3.0 times minimum requirement in the Group's banking covenants.

Other finance expenses, which comprise the net expected return on pension fund assets after deducting the interest cost on the defined benefit obligation, decreased slightly to £0.7 million (2017: £0.8 million). These costs are dependent upon the pension fund position at 31 March each year and are volatile, being subject to market fluctuations. We therefore exclude this item from adjusted profit before tax.

Profit before tax – continuing operations

	2018	2017	Change	Change
	£m	£m	£m	%
Total product group profit	**71.8**	68.3	3.5	5.1
Finance costs	**(9.5)**	(7.7)	(1.8)	(23.4)
Adjusted profit before tax	**62.3**	60.6	1.7	2.8
Amortisation of acquired intangibles	**(0.4)**	(0.4)	-	-
Exceptional items	**118.0**	(19.1)	137.1	n/a
Other finance expense – pensions	**(0.7)**	(0.8)	0.1	12.5
Reported profit before tax – continuing operations	**179.2**	40.3	138.9	344.7

Adjusted profit before tax increased by 2.8% to £62.3 million. Reported profit before tax of £179.2 million represents a £138.9 million increase from 2017, predominantly due to the exceptional gain in relation to the pension fund of £130.9 million.

Taxation

The Group's effective pre-exceptional tax rate on continuing operations was 17.3% (2017: 18.0%). The effective tax rate is slightly below the headline rate of UK corporate tax as we sold a small number of properties, the profits on which are offset by brought forward capital losses or roll over relief.

Earnings per share

The Group's adjusted basic earnings per share from continuing operations increased by 3% to 36.7 pence (2017: 35.6 pence) reflecting the increase in post-tax profits. Basic earnings per share from continuing operations, which includes the impact of exceptional items, pension interest expense and the amortisation of acquired intangibles, amounted to 106.6 pence (2017: 23.7 pence).

Discontinued operations

There was no discontinued gain or loss recorded in the year ended 31 March 2018. The post-tax profit on discontinued operations in the previous year totalled £5.2 million and related to previously sold businesses in the UK and France.

Group result for the year

The reported Group profit for the year from continuing operations was £149.5 million (2017: £33.1 million). The profit for the year attributable to equity shareholders was £149.5 million (2017: £38.3 million).

Dividends

The proposed final dividend of 16.3 pence per share is in line with the previous year. Together with the interim dividend of 6.3 pence per share (2017: 6.2 pence per share) the total dividend for the year is 22.6 pence per share (2017: 22.5 pence per share). This represents a 0.4% increase in line with our progressive dividend policy. The final dividend will be paid on 10 August 2018 to shareholders on the register on 6 July 2018.

Dividend cover of 1.6 times is within the Board's target range of 1.5 to 2.5 times (2017: 1.6 times).

Pensions

At 31 March 2018 the Group had a pension surplus of £93.9 million. This represents a £203.5 million improvement compared to the deficit in March 2017 of £109.6 million.

The March 2018 position now reflects an agreed change to the indexation of pensions in payment. Following detailed negotiations with the Trustee, future annual increases will be linked to CPI rather than RPI. CPI is already used by the Fund for calculating increases in deferred pensions and is becoming more widely used across the UK, including for the calculation of increases in public sector pensions. CPI is generally lower than RPI and therefore changing to CPI reduces the estimate of future benefit costs. This change was agreed as part of a broader package to put the Fund on a stronger foundation for the future. This package includes continuing to move to lower-risk investments over time.

A new schedule of contributions has been agreed and this resulted in cash contributions of £10.7 million in 2017/18 (2017: £12.9 million) and will result in £14.2 million in 2018/19. Beyond that, contributions will revert to £20 million per annum, although the new triennial valuation in March 2019 will determine contributions beyond then when agreed.

We continue to manage pension fund liabilities and during the year a Flexible Retirement Option programme was undertaken resulting in £13.3 million of liabilities being permanently removed from the fund (2017: £18.8 million).

Cash flow

The Group delivers strong operating margins and is growing. This generates good underlying cash flows: EBITDA of £90.2 million is £6.5 million, or 8%, higher than last year. This year we have continued to develop the business for the medium term by investing in our spreads and butters facility at Kirkby, building a new streamlined group-wide IT system and refining the functional ingredients operations at Davidstow. Furthermore the business absorbed a significant increase in milk input costs during the year.

Higher milk cost is the principal reason for a stock value of £183.5 million at 31 March 2018, approximately £30 million higher than the year before. This stock will be sold in 2018/19 and we have achieved selling price increases in the market that have helped the Group broadly maintain margins. However, these temporary stock increases were only partly funded through debt. Overall net debt increased by £16 million during the year, albeit the excess of net debt over stock value of £82.2 million is as low as it has been in the last two years and represents less than one year of EBITDA.

Cash generated from operations increased to £33.7 million (2017: £32.8 million) despite being impacted by the higher cost of raw materials going into cheese and functional ingredients. There was a net cash inflow across debtors and creditors of £1.5 million (2017: £4.4 million). Debtor days of 12 is the lowest that the Group has ever achieved and represents a reduction of four days compared to last year.

Capital expenditure totalled £31.2 million (2017: 25.6 million). The main individual item was £8.6 million expenditure on new IT systems as part of a two year replacement programme that will generate savings of at least £5 million per annum from 2019. Approximately £3.9 million was spent in the first half of the year at Davidstow in relation to previously accrued functional ingredients investments. Other capital expenditure totalled £18.7 million and included: improvements to waste water treatment; Kirkby production line enhancements as part of the improvement initiative programme; and the buyout of leased units at our Frylight site giving us complete ownership of all operating facilities.

Asset sales comprised £22.1 million (2017: £42.4 million) and comprised £7.4 million in relation to previously closed properties (2017: £4.5 million) and a further £14.7 million through the sale and leaseback of certain equipment at Kirkby (2017: £37.9 million at Davidstow).

Borrowing facilities

Total borrowing facilities comprise £368 million Sterling equivalent.

The Group has a five year multi-currency revolving credit facility for £240 million, all of which expires in October 2020 following the agreement of the banks in September 2017 to extend £80 million of the facility by two years.

At 31 March 2018 the Group had a swapped Sterling equivalent of £128.2 million of loan notes outstanding maturing between 2018 and 2026.

Treasury policies

The Group operates a centralised treasury function which controls cash management and borrowings and the Group's financial risks. The main treasury risks faced by the Group are liquidity, interest rates and foreign currency. The Group only uses derivatives to manage its foreign currency and interest rate risks arising from underlying business and financing activities. Transactions of a speculative nature are prohibited. The Group's treasury activities are governed by policies approved and monitored by the Board.

Tom Atherton

Deputy Chief Executive & Group Finance Director

22 May 2018

Consolidated income statement
Year ended 31 March 2018

	Note	2018 Before exceptional items £m	2018 Exceptional Items* £m	2018 Total £m	2017 Before exceptional items £m	2017 Exceptional Items* £m	2017 Total £m
Revenue	2	**456.8**	**-**	**456.8**	416.6	-	416.6
Operating costs	3,5	**(387.8)**	**118.0**	**(269.8)**	(351.7)	(19.1)	(370.8)
Other income – property	4	**2.4**	**-**	**2.4**	3.0	-	3.0
Profit on continuing operations		**71.4**	**118.0**	**189.4**	67.9	(19.1)	48.8
Finance costs	6	**(9.5)**	**-**	**(9.5)**	(7.7)	-	(7.7)
Other finance expense - pensions	16	**(0.7)**	**-**	**(0.7)**	(0.8)	-	(0.8)
Profit before tax from continuing operations		**61.2**	**118.0**	**179.2**	59.4	(19.1)	40.3
Tax (expense) / credit	7	**(10.6)**	**(19.1)**	**(29.7)**	(10.7)	3.5	(7.2)
Profit from continuing operations		**50.6**	**98.9**	**149.5**	48.7	(15.6)	33.1
Profit / (loss) from discontinued operations	8	**-**	**-**	**-**	(1.8)	7.0	5.2
Profit for the year attributable to equity shareholders		**50.6**	**98.9**	**149.5**	46.9	(8.6)	38.3

*Further detail provided in note 5

		2018	2017
Earnings per share			
Basic earnings per share from continuing operations (pence)	9	**106.6**	23.7
Diluted earnings per share from continuing operations (pence)	9	**105.6**	23.5
Basic earnings per share (pence)	9	**106.6**	27.4
Diluted earnings per share (pence)	9	**105.6**	27.1

		2018	2017
Dividends			
Proposed final dividend (£m)	10	**22.9**	22.8
Interim dividend paid (£m)	10	**8.8**	8.7
Proposed final dividend (pence)	10	**16.3**	16.3
Interim dividend paid (pence)	10	**6.3**	6.2

Consolidated statement of comprehensive income
Year ended 31 March 2018

	Note	2018 £m	2017 £m
Profit for the year		**149.5**	38.3
Other comprehensive income which may be reclassified to profit and loss in subsequent years:			
Cash flow hedges - reclassification adjustment for losses in income statement		**(10.2)**	(4.8)
Cash flow hedges - gains recognised in other comprehensive income		**11.0**	1.6
Tax (charge) / credit relating to components of other comprehensive income	7	**(0.5)**	0.9
		0.3	(2.3)
Other comprehensive income not to be reclassified to profit and loss in subsequent years:			
Remeasurement of defined benefit pension plan	16	**61.1**	(80.4)
Tax (charge) / credit relating to components of other comprehensive income	7	**(10.3)**	10.7
		50.8	(69.7)
Other comprehensive gain / (loss) for the year, net of tax		**51.1**	(72.0)
Total comprehensive gain / (loss) for the year, net of tax		**200.6**	(33.7)

All amounts are attributable to owners of the parent.

Consolidated balance sheet
At 31 March 2018

		Note	2018 £m	2017 £m
Assets				
Non-current assets				
Property, plant and equipment		11	**185.7**	198.6
Goodwill		12	**86.3**	86.3
Intangible assets		13	**20.5**	14.4
Retirement benefit surplus		16	**93.9**	-
Deferred tax asset		7	**-**	29.6
Financial assets - Derivative financial instruments			**1.4**	12.3
			387.8	341.2
Current assets				
Inventories			**183.5**	154.2
Trade and other receivables			**29.3**	33.4
Financial assets - Derivative financial instruments			**1.6**	-
Cash and short-term deposits			**22.6**	20.9
			237.0	208.5
Non-current assets held for sale		14	**3.4**	7.4
Total assets		2	**628.2**	557.1
Equity and Liabilities				
Non-current liabilities				
Financial liabilities	- Long-term borrowings	15	**(275.5)**	(274.2)
	- Derivative financial instruments	15	**(1.0)**	-
Retirement benefit obligations		16	**-**	(109.6)
Deferred tax liability		7	**(10.0)**	-
Deferred income			**(2.4)**	(3.0)
Provisions		18	**(2.0)**	(2.0)
			(290.9)	(388.8)
Current liabilities				
Trade and other payables		17	**(72.6)**	(79.1)
Financial liabilities	- Short-term borrowings	15	**(18.3)**	(12.8)
	- Derivative financial instruments	15	**-**	(0.3)
Current tax liability			**(0.3)**	-
Deferred income			**(0.6)**	(1.5)
Provisions		18	**(1.8)**	(2.7)
			(93.6)	(96.4)
Total liabilities			**(384.5)**	(485.2)
Shareholders' equity				
Ordinary shares			**(35.4)**	(35.3)
Share premium			**(86.8)**	(85.6)
Interest in ESOP			**0.5**	0.5
Other reserves			**(48.6)**	(48.3)
Retained earnings			**(73.4)**	96.8
Total shareholders' equity			**(243.7)**	(71.9)
Total equity and liabilities			**(628.2)**	(557.1)

Consolidated statement of changes in equity
Year ended 31 March 2018

	Attributable to owners of the parent					
	Ordinary shares	Share premium	Interest in ESOP	Other Reserves	Retained earnings	**Total Equity**
2018	£m	£m	£m	£m	£m	**£m**
At 31 March 2017	35.3	85.6	(0.5)	48.3	(96.8)	**71.9**
Profit for the year	-	-	-	-	149.5	**149.5**
Other comprehensive gain / (loss):						
Cash flow hedges	-	-	-	0.8	-	**0.8**
Remeasurement of defined benefit pension plan	-	-	-	-	61.1	**61.1**
Tax on components of other comprehensive income	-	-	-	(0.5)	(10.3)	**(10.8)**
Other comprehensive gain	-	-	-	0.3	50.8	**51.1**
Total comprehensive gain	-	-	-	0.3	200.3	**200.6**
Issue of share capital	0.1	1.2	-	-	-	**1.3**
Share-based payments	-	-	-	-	1.6	**1.6**
Tax on share-based payments	-	-	-	-	(0.1)	**(0.1)**
Equity dividends	-	-	-	-	(31.6)	**(31.6)**
At 31 March 2018	**35.4**	**86.8**	**(0.5)**	**48.6**	**73.4**	**243.7**
2017						
At 31 March 2016	35.2	84.3	(0.5)	50.6	(35.4)	**134.2**
Profit for the year	-	-	-	-	38.3	**38.3**
Other comprehensive gain / (loss):						
Cash flow hedges	-	-	-	(3.2)	-	**(3.2)**
Remeasurement of defined benefit pension plan	-	-	-	-	(80.4)	**(80.4)**
Tax on components of other comprehensive income	-	-	-	0.9	10.7	**11.6**
Other comprehensive loss	-	-	-	(2.3)	(69.7)	**(72.0)**
Total comprehensive loss	-	-	-	(2.3)	(31.4)	**(33.7)**
Issue of share capital	0.1	1.3	-	-	-	**1.4**
Share-based payments	-	-	-	-	1.2	**1.2**
Tax on shared-base payments	-	-	-	-	(0.1)	**(0.1)**
Equity dividends	-	-	-	-	(31.1)	**(31.1)**
At 31 March 2017	35.3	85.6	(0.5)	48.3	(96.8)	**71.9**

Consolidated statement of cash flows
Year ended 31 March 2018

	Note	2018 £m	2017 £m
Cash generated from operations	19	**33.7**	32.8
Interest paid		**(9.7)**	(12.2)
Taxation paid		**(0.5)**	-
Net cash inflow from operating activities		**23.5**	20.6
Cash flow from investing activities			
Capital expenditure		**(31.2)**	(25.6)
Proceeds from disposal of property, plant and equipment		**22.1**	42.4
(Repayment) / proceeds relating to sale of business net of fees		**-**	(28.4)
Net cash used in investing activities		**(9.1)**	(11.6)
Cash flow from financing activities			
Repayment of loan notes	20	**(12.0)**	(80.2)
Net drawdown under revolving credit facilities	20	**31.0**	23.0
Dividends paid	10	**(31.6)**	(31.1)
Proceeds from issue of shares (net of issue costs)		**1.3**	1.4
Finance lease repayments	20	**(1.4)**	(1.5)
Net cash used in financing activities		**(12.7)**	(88.4)
Net increase / (decrease) in cash and cash equivalents		**1.7**	(79.4)
Cash and cash equivalents at beginning of year	20	**20.9**	100.3
Cash and cash equivalents at end of year	20	**22.6**	20.9
Net debt at end of year *	20	**(265.7)**	(249.8)

*Denotes an alternative performance measure as described in note 22

Notes to the preliminary announcement

1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the Disclosure Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards ("IFRS") and International Financial Reporting interpretation committee ("IFRIC"), interpretations as endorsed by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Except as described, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2017, as described in those financial statements.

The following accounting standards and interpretations became effective for the current reporting period:

- IAS 7 'Disclosure Initiative' – Amendments to IAS7
- IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' – Amendments to IAS 12
- IFRS 12 'Disclosure of Interests in Other Entities' – Clarification of the scope of the disclosure requirements in IFRS 12

The application of these standards has had no material impact on the net assets, results and disclosures of the Group in the year ended 31 March 2018.

The financial information set out in this document does not constitute the statutory accounts of the Group for the years ended 31 March 2018 or 31 March 2017 but is derived from the 2018 Group Annual Report and Financial Statements. The Group Annual Report and Financial Statements for 2018 will be delivered to the Registrar of Companies in due course. The auditors have reported on those accounts and have given an unqualified report, which does not contain a statement under Section 498 of the Companies Act 2006.

Principal risks

The main factors that could affect the business and the financial results are described in the Principal Risks section of the 31 March 2017 Annual Report. There have been no changes in the risks identified for the year ended 31 March 2018.

Going concern and viability

The Directors have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure. After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate financial resources to continue its current operations, including contractual and commercial commitments, for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements of the Group.

The Directors have assessed the Group's viability over a longer period than the twelve months required by the 'Going Concern' statement in accordance with the 2014 UK Corporate Governance Code. The Directors have assessed the Group's viability over the three year period ending 31 March 2021 which aligns with the Group's planning process. This period is considered an appropriate balance between the need to provide a longer term outlook, and the need for a reasonable degree of confidence in that outlook in a fast-moving industry

Keys areas of estimation and judgement

The Directors have determined the key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are in respect of the key assumptions used in valuing the Group's retirement benefit obligation. Key areas of judgement include the classification of exceptional items, a contingent liability in respect of Chadwell Heath, a contingent liability in respect of litigation, the recognition of a deferred tax asset relating to trading losses and the judgement made around operating segments.

Director's responsibilities

The responsibility statement below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 31 March 2018. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the management report, which is incorporated into the Strategic Report and Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by

Mark Allen Chief Executive
Tom Atherton Group Finance Director
22 May 2018

Notes the preliminary announcement

2 Segmental analysis

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Company's Board members as they are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The business is managed centrally by functional teams (Demand, Supply, Procurement and Finance) that have responsibility for the whole of the Group's product portfolio. Although some discrete financial information is available to provide insight to the management team of the key performance drivers, the product group profit is not part of the CODM's review. Management has judged that the continuing Group comprises one operating segment under IFRS 8. As such, disclosures required under IFRS 8 for the financial statements are shown on the face of the consolidated income statement and balance sheet.

To assist the readers of the financial statements, management considers it appropriate to provide voluntary disclosure on a basis consistent with historical reporting of the cheese and functional ingredients product group and the butters, spreads and oils product group results included within the consolidated income statement. In disclosing the product group profit for the year, certain assumptions have been made when allocating resources which are centralised at a group level.

The 'Other' product group comprises revenue earned from distributing products for third parties and certain central costs net of recharges to the other product groups. Generally, central costs less external 'Other' revenue is recharged back into the product groups such that their result reflects the total cost base of the Group. 'Other' operating profit therefore is nil.

2 Segmental analysis (continued)

The results under the historical segmentation basis for the continuing business included in the financial information are as follows:

		Year ended	
		2018	2017
	Note	**£m**	£m
External revenue			
Cheese and Functional Ingredients		**277.2**	254.8
Butters, Spreads and Oils		**174.2**	150.7
Other		**5.4**	11.1
Total product group external revenue - continuing operations		**456.8**	416.6
Product group profit *			
Cheese and Functional Ingredients		**50.1**	42.8
Butters, Spreads and Oils		**21.7**	25.5
Total product group profit - continuing operations		**71.8**	68.3
Finance costs	6	**(9.5)**	(7.7)
Adjusted profit before tax* - continuing operations		**62.3**	60.6
Acquired intangible amortisation	13	**(0.4)**	(0.4)
Exceptional items	5	**118.0**	(19.1)
Other finance expense - pensions	16	**(0.7)**	(0.8)
Group profit before tax – continuing operations		**179.2**	40.3

	2018	2017
Total assets	**£m**	£m
Cheese and Functional Ingredients	**344.3**	305.8
Butters, Spreads and Oils	**133.2**	150.5
Other	**150.7**	100.8
Total assets	**628.2**	557.1

*Denotes alternative performance measures as described in note 22

2 Segmental analysis (continued)

	Note	Year ended 31 March 2018 £m	2017 £m
Product group depreciation and amortisation (excluding amortisation of acquired intangible assets)			
Cheese and Functional Ingredients		**(12.1)**	(8.6)
Butters, Spreads and Oils		**(4.0)**	(4.0)
Other		**(2.3)**	(2.8)
Total		**(18.4)**	(15.4)
Product group additions to non-current assets			
Cheese and Functional Ingredients		**22.7**	21.6
Butters, Spreads and Oils		**4.7**	6.4
Other		**1.9**	2.6
Total		**29.3**	30.6
Product group exceptional items			
Cheese and Functional Ingredients		**(7.4)**	(19.0)
Butters, Spreads and Oils		**(6.2)**	-
Unsegmented		**131.6**	(0.1)
Total exceptional operating costs	5	**118.0**	(19.1)

Notes to the preliminary announcement

2 Segmental analysis (continued)

Interest income and expense are not included in the measure of product group profit. Group treasury has always been centrally managed and external interest income and expense are not allocated to product groups. Further analysis of the Group interest expense is provided in Note 6.

Tax costs are not included in the measure of product group profit.

Product group assets comprise property, plant and equipment, goodwill, intangible assets, inventories, receivables and cash and cash equivalents. They exclude derivative financial assets and deferred tax assets. Other product group assets comprise certain property, plant and equipment that is not reported in product groups.

Product group depreciation and amortisation excludes amortisation of acquired intangible assets of £0.4 million (2017: £0.4 million) as these costs are not charged in the product group result.

Product group additions to non-current assets comprise additions to goodwill, intangible assets and property, plant and equipment through capital expenditure and acquisition of businesses.

Geographical information - continuing operations	Year ended 31 March	
	2018	2017
External revenue attributed on basis of customer location	**£m**	£m
UK	**443.6**	404.7
Rest of world	**13.2**	11.9
Total revenue	**456.8**	416.6
Non-current assets* based on location		
UK	**389.8**	336.3
Total	**389.8**	336.3

*Comprises property, plant and equipment, goodwill, intangible assets, investments, deferred tax asset and assets held for sale.

The Group has three customers which individually represent more than 10% of revenue from continuing operations in the year ended 31 March 2018 (2017: three) with each customer accounting for £51.0 million, £54.3 million and £98.3 million (2017: £54.2 million, £56.2 million, and £92.7 million) of revenue from continuing operations being 11.2%, 11.9% and 21.5% (2017: 13.0%, 13.5% and 22.3%).

3. Operating costs – continuing operations

	Year ended 31 March 2018			Year ended 31 March 2017		
	Before exceptional items	**Exceptional items**	**Total**	Before exceptional items	Exceptional items	Total
	£m	**£m**	**£m**	£m	£m	£m
Cost of sales	**337.1**	**(118.0)**	**219.1**	287.5	19.1	306.6
Distribution costs	**22.2**	**-**	**22.2**	31.6	-	31.6
Administrative expenses	**28.5**	**-**	**28.5**	32.6	-	32.6
	387.8	**(118.0)**	**269.8**	351.7	19.1	370.8

4 Other income - property

Other income of £2.4 million (2017: £3.0 million) relates to the profits from the disposal of closed Dairies depots retained by Dairy Crest.

Notes to the preliminary announcement

5 Exceptional items

Exceptional items comprise those items that are material in nature that the Group believes should be separately disclosed to assist in the understanding of the underlying financial performance of the Group.

The exceptional items charge to the operating costs of the continuing operations are analysed below. The exceptional items charged in relation to discontinued operations are analysed in Note 8.

	2018	2017
	£m	£m
Operating costs		
Demineralised whey powder and GOS projects	**(5.6)**	(19.0)
Kirkby improvement programme	**(5.4)**	-
Restructuring costs resulting from changes to IT systems	**(2.6)**	-
Gain on the Group's Pension Fund	**130.9**	-
Profit on sale / (disposal costs) in relation to closed manufacturing sites	**0.7**	(2.3)
	118.0	(21.3)
Settlement gain in relation to Farmright Limited and Quadra Foods Limited	**-**	2.2
	118.0	(19.1)
Tax (charge) / relief on exceptional items	**(19.1)**	2.8
Release of deferred tax liability in respect of industrial buildings	**-**	0.7
	98.9	(15.6)

Demineralised whey powder and GOS projects

During the year ended 31 March 2017, the Group completed an investment in its cheese creamery at Davidstow, Cornwall enabling the Group to manufacture demineralised whey powder, a base ingredient of infant formula, and galacto-oligosaccharide ("GOS"), widely used in infant formula. In the year ended 31 March 2018, £8.5 million of costs were charged to the income statement offset by £2.9 million received in settlement of project related litigation. Costs were incurred in two areas; £3.8 million relating to commissioning production costs and £4.7 million resulting from the write-down of stock. Demineralised whey and GOS production has stabilised over the course of the year, however the production of GOS to exacting standards was impacted by commissioning issues which has led to the write-down and rework of some inventory during the year. Production volumes of GOS have increased as the year has progressed, which has been necessary to ensure the consistent production of high quality product. However we have experienced delays in establishing our customer base due to the complexity of product formulation and the customers' qualification and audit requirements. As we build our customer base in both demineralised whey and GOS, we have offered pricing incentives to establish new customers. This has been reflected in the net realisable value of the inventory held at the year end. This level of exceptional spend was higher than anticipated at the start of the year albeit significantly below the £19.0 million incurred in the year ended 31 March 2017. We do not expect further exceptional items in 2018/19. The tax credit relating to this exceptional charge was £0.9 million (2017: £3.1 million).

Kirkby improvement programme

In April 2017, the Group commenced a restructuring project to improve the flexibility and efficiency of the Butters and Spreads manufacturing facility in Kirkby, Liverpool. In a challenging UK Butters and Spreads market it is important that the Group's facility is as efficient as it can be. In the year ended 31 March 2018, costs of £5.4 million were incurred, as a result of headcount restructuring and project management at the site as well as some project consultancy costs. The tax credit in respect of this charge is £0.9 million. Management considers the costs to be exceptional due to the materiality of the costs and one-off nature of the project and expects further costs of between £1.0 million and £2.0 million in the year ending 31 March 2019. In the medium term, the costs of restructuring should be partly offset by the proceeds from the sale of surplus land on the site. Any future profits resulting from the sale of land will also be treated as an exceptional item.

Restructuring costs resulting from changes to IT systems

In 2016, the Group undertook a project to replace its manufacturing, purchasing and financial systems. The implementation of the new systems began in November 2017 and will be phased gradually throughout 2018 and 2019. As a result of this, during the year ended 31 March 2018, the Group impaired intangible assets of £2.5 million associated with the old systems. As the project continues, costs that relate to the restructuring of the departments required to support the new systems will be incurred and charged to the project. £0.1 million of restructuring costs have been incurred in the year ended 31 March 2018. The tax credit in respect of this charge was £0.5 million. Management considers these costs to be exceptional due to the materiality of the costs and the one-off nature of the project to which they relate and expects further costs to be incurred in respect of this project in the year ending 31 March 2019.

Gain on the Group's Pension Fund

On 31 August 2017, the Group and the Trustee of the Group's Pension Fund (the Fund) finalised the 31 March 2016 funding valuation. As part of the overall package of funding, the Group and the Trustee formally agreed to change the measurement of inflation used for Fund pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI). CPI will therefore apply for Fund pension increases from 25 March 2018 onwards. This has been factored into the IAS19 valuation of the retirement benefit obligation as at 31 March 2018 resulting in an exceptional gain, net of costs, of £130.9 million. The tax charge in respect of this gain was £22.1 million. Management considers this gain to be exceptional due to the materiality and one-off nature of the gain.

Profit on sale / (disposal costs) in relation to closed manufacturing sites

In the year ended 31 March 2018, the Group disposed of a closed manufacturing facility in Fenstanton, Cambridgeshire resulting in a profit on disposal of £1.0 million. In addition, the Group has impaired two leasehold properties for which management has determined there to be no future economic benefit resulting in an impairment of £0.3 million. The net gain has been treated as an exceptional item consistent with the

5 Exceptional items (continued)

historical closure costs of manufacturing sites which were considered to be exceptional due to the materiality and one-off nature of the costs. The tax in respect of this gain was £nil.

In the prior year, the Group incurred costs of £2.3 million relating to the disposal of closed manufacturing sites that were determined as held for sale as at 31 March 2017. The tax credit in relation to these costs was £0.1 million.

Prior Year

Settlement gain in relation to Farmright Limited and Quadra Foods Limited

On 9 May 2016, the Group paid £1.0 million in full and final settlement of claims arising out of the debt originally owed to Farmright Limited. Claims between the Group, Farmright Limited and Quadra Foods Limited (and any assignees of the claims) are now resolved. Following settlement, £2.1 million plus a provision for professional fees of £0.1 million which was no longer required were released. Management considered this credit to be exceptional due to it being one-off in nature and in relation to the debt of Quadra Foods Limited, for which £4.3 million was provided for under an exceptional impairment provision in the year ended 31 March 2012. The tax charge in relation to this release was £0.4 million.

6 Finance costs and other finance income

Finance costs

	2018	2017
	£m	£m
Bank loans and overdrafts (at amortised cost)	**(9.4)**	(7.6)
Finance charges on finance leases	**(0.1)**	(0.1)
Total net finance costs - continuing operations	**(9.5)**	(7.7)

Interest payable on bank loans and overdrafts is stated after capitalising £0.3 million (2017: £3.1 million) of interest on expenditure on capital projects at a rate of 4.0% (2017: 4.0%). The tax impact of the capitalised interest was £0.1 million (2017: £0.6 million).

7 Tax expense

Continuing operations

The major components of income tax expense for continuing operations for the years ended 31 March 2018 and 2017 are:

		2018	2017
Consolidated income statement		**£m**	£m
Current income tax		**1.0**	-
Deferred income tax			
Origination and reversal of temporary differences		**32.4**	8.5
Effect of change in tax rate		**(2.1)**	(0.5)
Adjustment in respect of previous years – deferred tax		**(1.6)**	(0.8)
		29.7	7.2
Analysed:	Before exceptional items	**10.6**	10.7
	Exceptional items	**19.1**	(3.5)
		29.7	7.2

Reconciliation between tax charge and the profit before tax multiplied by the statutory rate of corporation tax in the UK:

	2018	2017
	£m	£m
Profit before tax	**179.2**	40.3
Tax at UK statutory corporation tax rate of 19% (2017:20%)	**34.0**	8.1
Adjustments in respect of previous years	**(1.6)**	(0.8)
Adjustments for change in UK corporation tax rate*	**(2.1)**	(0.5)
Non-deductible expenses	**0.8**	1.2
Profits offset by available tax relief	**(1.4)**	(0.8)
	29.7	7.2

The effective pre-exceptional rate of tax on the Group's profit before tax from continuing operations is 17.3% (2017: 18.0%).

The total Group effective tax rate is below the headline rate of UK corporation tax at 16.6% (2017: 17.9%) the main reasons for which are explained in the table above. Further reasons include the availability of capital losses for which no deferred tax asset has been recognised against profits of

7 Tax expense (continued)

£3.4 million on the disposal of properties and £21.8 million of the Group's revenues falling within the patent box regime. We expect these factors to continue to keep the effective tax rate below the headline rate of UK corporation tax next year.

* A further reduction in the UK Corporation tax rate was enacted in September 2016, bringing the rate down to 17% from 1 April 2020. Accordingly, deferred tax has been provided on all temporary differences at the rate in force when they are anticipated to reverse.

Discontinued Operations

The total income tax credit in respect of discontinued operations for the year ended 31 March 2018 was £nil (2017: £9.8 million). Tax relief on exceptional costs incurred by discontinued operations in the year ended 31 March 2018 was £nil (2017: £5.7 million). In the prior year a £3.8 million tax credit was recognised in respect of the disposal of St Hubert SAS. Tax attributable to discontinued operations is disclosed in Note 8.

Tax charge / (credit) relating to components of consolidated other comprehensive income

	2018	2017
	£m	£m
Deferred income tax related to items charged to other comprehensive income		
- Pension deferred tax movement taken directly to reserves	**10.3**	(10.7)
- Valuation of financial instruments	**0.5**	(0.9)
Tax charge (credit)	**10.8**	(11.6)

Tax on items recognised directly to equity

Deferred tax of £0.1 million relating to share-based payments was charged directly to equity in the year ended 31 March 2018 (2017: £0.1 million).

Deferred income tax

Deferred income tax at 31 March 2018 and 2017 relates to the following:

	2018	2017
Deferred tax liability	**£m**	£m
Accelerated depreciation for tax purposes	**(2.0)**	-
Goodwill and intangible assets	**(8.2)**	(7.8)
Pensions	**(15.9)**	-
	(26.1)	(7.8)
Deferred tax asset		
Accelerated depreciation for tax purposes	**-**	1.1
Government grants	**0.6**	0.9
Share-based payments	**1.2**	1.0
Pensions	**-**	18.6
Financial instruments valuation	**0.7**	1.2
Trading losses	**13.2**	14.0
Other	**0.4**	0.6
	16.1	37.4
Net deferred tax (liability) / asset	**(10.0)**	29.6

The recognition of the deferred tax asset relating to trading losses is based on the expectation that the business will continue to be profitable going forward.

Notes to the preliminary announcement

7 Tax expense (continued)

The movement in the net deferred tax (liability) / asset is shown below:

	Deferred tax (liability) / asset				
	Goodwill and Intangible assets	Pensions	Accelerated tax depreciation	Other temporary differences	Total
	£m	£m	£m	£m	£m
Balances at 31 March 2017	(7.8)	18.6	1.1	17.7	29.6
Charge to income statement: continuing operations	(0.4)	(24.2)	(3.1)	(1.0)	(28.7)
Charge to other comprehensive income	-	(10.3)	-	(0.5)	(10.8)
Charge taken directly to reserves	-	-	-	(0.1)	(0.1)
Balances at 31 March 2018	**(8.2)**	**(15.9)**	**(2.0)**	**16.1**	**(10.0)**
Balances at 31 March 2016	(7.9)	12.5	(4.5)	19.2	19.3
(Charge) / credit to income statement: continuing operations	0.1	(4.6)	5.6	(8.3)	(7.2)
Credit to income statement: discontinued operations	-	-	-	6.0	6.0
Credit to other comprehensive income	-	10.7	-	0.9	11.6
Charge taken directly to reserves	-	-	-	(0.1)	(0.1)
Balances at 31 March 2017	(7.8)	18.6	1.1	17.7	29.6

The Group has capital losses which arose in the UK of £115.3 million (2017: £121.2 million) that are available indefinitely for offset against future taxable gains. Deferred tax has not been recognised in respect of these losses as there is no foreseeable prospect of their being utilised. The Group has realised capital gains amounting to £28.9 million (2017: £22.6 million) for which rollover relief claims have been or are intended to be made.

Notes to the preliminary announcement

8 Discontinued operations

On 26 December 2015, the Group completed the disposal of its Dairies operation to Muller UK & Ireland Group LLP. The Dairies operation has been classified as a discontinued operation since the year of disposal. The results of the Dairies operation which have been included in the consolidated income statement within discontinued operations can be analysed as follows:

	2018	2017
	£m	£m
Revenue	-	-
Operating costs	-	(2.1)
Other income - property	-	-
Operating loss before exceptional operating items and tax attributable to discontinued operations	-	(2.1)
Exceptional operating items	-	-
Operating loss before tax attributable to discontinued operations	-	(2.1)
Attributable tax	-	0.8
Tax credit in relation to the disposal of St Hubert	-	3.8
Profit after tax from discontinued operations	-	2.5
Loss on disposal	-	(2.5)
Attributable tax on disposal	-	5.2
Profit for the period from discontinued operations	-	5.2
Earnings per share from discontinued operations		
Basic (pence)	n/a	3.7
Diluted (pence)	n/a	3.7

The operating costs of £2.1 million in 2017 comprise £1.6 million relating to certain costs in respect of the Dairies operation that had not been accrued for at the point of sale and as such were the liability of the Group in line with the sale and purchase agreement with Muller UK & Ireland LLP. A further £0.5 million has been charged in respect of the Group's investment in HEICO Limited which was fully impaired in the period. The investment related to the Dairies operation and as such the impairment has been recognised within discontinued operations.

a. Exceptional items

	2018	2017
	£m	£m
Exceptional operating items after attributable tax	-	4.3
Profit on disposal after attributable tax	-	2.7
Exceptional items after tax	-	7.0

Exceptional operating costs

	2018	2017
	£m	£m
Rationalisation of operating sites	-	-
Costs associated with the separation and proposed sale of the Dairies operation	-	-
Exceptional operating costs - discontinued operations	-	-
Tax relief on exceptional items	-	0.5
Tax credit in relation to the disposal of St Hubert	-	3.8
	-	4.3

Tax relief on exceptional items

In 2016 the Group incurred £8.9 million of separation costs such as one-off systems costs and professional fees. A tax credit of £0.5 million was recognised in 2017.

Tax credit in relation to the disposal of St Hubert

A tax provision of £3.8 million was created when St Hubert SAS was disposed of in August 2012. In 2017, a tax credit was recognised in respect of this because the period during which the French authorities can raise tax assessments had expired. This was recognised within discontinued operations consistent with the results of St Hubert SAS following disposal.

b. Net cash flows attributable to discontinued operations

Net cash flows attributable to the Dairies operation in the period and comparative period are as follows:

	2018	2017
	£m	£m
Cash flow from operating activities	-	(2.1)
Cash used in investing activities	-	-
Net cash flows attributable to discontinued operations	-	(2.1)

Notes to the preliminary announcement

9 Earnings per share

The basic earnings per share ("EPS") measures for the year have been calculated by dividing the profit attributable to equity shareholders from the relevant operations (continuing, discontinued and total group) by the weighted average number of ordinary shares in issue during the period, excluding those held by the Dairy Crest Employees' Share Ownership Plan Trust which are held as treasury shares and treated as cancelled.

The weighted average number of shares used in the calculation of basic EPS is detailed below along with the diluted weighted average number of ordinary shares used for the calculation of diluted EPS. The diluted weighted average number of ordinary shares reflects the dilutive impact of share options exercisable under the Group's share option schemes. Note that in the circumstances where there is a basic loss per share from continuing operations, share options are anti-dilutive and therefore are not included in the calculation of any other EPS measures.

	Year ended 31 March 2018			Year ended 31 March 2017		
	Earnings £m	**Weighted average no of shares million**	**Per share amount pence**	Earnings £m	Weighted average no of shares million	Per share amount pence
Basic EPS from continuing operations	**149.5**	**140.2**	**106.6**	33.1	139.8	23.7
Effect of dilutive securities:						
Share options	**-**	**1.3**	**(1.0)**	-	1.3	(0.2)
Diluted EPS from continuing operations	**149.5**	**141.5**	**105.6**	33.1	141.1	23.5
Adjusted EPS from continuing operations*						
Profit from continuing operations	**149.5**	**140.2**	**106.6**	33.1	139.8	23.7
Exceptional items (net of tax)	**(98.9)**	**-**	**(70.5)**	15.6	-	11.2
Amortisation of acquired intangible assets (net of tax)	**0.3**	**-**	**0.2**	0.3	-	0.2
Pension interest expense (net of tax)	**0.6**	**-**	**0.4**	0.7	-	0.5
Adjusted basic EPS from continuing operations	**51.5**	**140.2**	**36.7**	49.7	139.8	35.6
Effect of dilutive securities:						
Share options	**-**	**1.3**	**(0.3)**	-	1.3	(0.4)
Adjusted diluted EPS from continuing operations	**51.5**	**141.5**	**36.4**	49.7	141.1	35.2
Basic earnings per share from discontinued operations	**-**	**140.2**	**-**	5.2	139.8	3.7
Effect of dilutive securities:						
Share options	**-**	**1.3**	**-**	-	1.3	-
Diluted earnings per share from discontinued operations	**-**	**141.5**	**-**	5.2	141.1	3.7
Basic earnings per share for the year	**149.5**	**140.2**	**106.6**	38.3	139.8	27.4
Effect of dilutive securities:						
Share options	**-**	**1.3**	**(1.0)**	-	1.3	(0.3)
Diluted earnings per share for the year	**149.5**	**141.5**	**105.6**	38.3	141.1	27.1

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of signing of these financial statements.

* Denotes an alternative performance measure as described in note 22

10 Dividends paid and proposed

	2018	2017
Declared and paid during the year	**£m**	£m
Equity dividends on ordinary shares:		
Final dividend for 2017: 16.3 pence (2016:16.0 pence)	**22.8**	22.4
Interim dividend for 2018: 6.3 pence (2017: 6.2 pence)	**8.8**	8.7
	31.6	31.1
Proposed for approval at AGM (not recognised as a liability at 31 March)		
Equity dividends on ordinary shares:		
Final dividend for 2018: 16.3 pence (2017:16.3 pence)	**22.9**	22.8

11 Property, plant and equipment

2018	Land and buildings £m	Vehicles, plant and equipment £m	Assets in the course of construction £m	Total £m
Cost				
At 1 April 2017	75.0	252.9	13.4	341.3
Additions	1.8	13.5	4.8	20.1
Disposals	-	(23.2)	-	(23.2)
Transfers and reclassifications	21.9	(11.9)	(10.0)	-
At 31 March 2018	**98.7**	**231.3**	**8.2**	**338.2**
Accumulated depreciation				
At 1 April 2017	25.6	117.1	-	142.7
Charge for the year – continuing	3.7	14.7	-	18.4
Disposals	-	(8.6)	-	(8.6)
At 31 March 2018	**29.3**	**123.2**	**-**	**152.5**
Net book amount at 31 March 2018	**69.4**	**108.1**	**8.2**	**185.7**

2017				
Cost				
At 1 April 2016	82.0	197.9	96.2	376.1
Additions	4.9	9.3	12.2	26.4
Disposals	(1.3)	(44.8)	-	(46.1)
Transfers and reclassifications	4.0	91.0	(95.0)	-
Transfers to non-current assets held for sale (note 14)	(14.6)	(0.5)	-	(15.1)
At 31 March 2017	75.0	252.9	13.4	341.3
Accumulated depreciation				
At 1 April 2016	30.3	111.9	-	142.2
Charge for the year – continuing	2.6	12.3	-	14.9
Disposals	-	(6.7)	-	(6.7)
Transfer to non-current assets held for sale (note 14)	(7.3)	(0.4)	-	(7.7)
At 31 March 2017	25.6	117.1	-	142.7
Net book amount at 31 March 2017	49.4	135.8	13.4	198.6

2018

During the year, the Group disposed of £14.7 million of plant and equipment under a sale and leaseback agreement with Lombard Business Leasing Limited. The sale and leaseback was for certain plant and equipment relating to the butter packing facility at Kirkby.

2017

On 31 March 2017, £7.3 million of land and buildings and £0.1 million of plant and equipment was transferred to non-current assets held for sale (see Note 14).

During the year, the Group disposed of £37.9 million of plant and equipment under two sale and leaseback agreements with Lombard Business Leasing Limited. The sale and leaseback was for certain plant and equipment relating to the Demineralised Whey and GOS facility at Davidstow.

12 Goodwill

	£m
Cost	
At 31 March 2016	86.9
At 31 March 2017 and 31 March 2018	**86.9**
Accumulated impairment	
At 31 March 2016	(0.6)
At 31 March 2017 and 31 March 2018	**(0.6)**
Net book amount at 31 March 2017 and 31 March 2018	**86.3**

Impairment testing of goodwill

Acquired goodwill has been allocated for impairment testing purposes to three groups of cash-generating units ('CGUs'): Butters and Spreads, MH Foods, and Cheese and Functional Ingredients. Goodwill recognised on the acquisition of Promovita Ingredients Limited is included in the Cheese and Functional Ingredients CGU as the business is directly linked to the Cheese and Functional Ingredients product group.

All groups of CGUs with goodwill are tested for impairment annually by comparing the carrying amount of that CGU with its recoverable amount. Recoverable amount is determined based on a value-in-use calculation using cash flow projections based on financial budgets and strategic plans approved by senior management covering a three-year period. The discount rate applied to the projections was 8.4% for Butters and Spreads, MH Foods, and Cheese and Functional Ingredients (2017: 6.5%).

The growth rate used to extrapolate cash flows beyond the three-year period for Butters and Spreads, MH Foods and Cheese and Functional Ingredients is nil (2017: nil).

The carrying amount of goodwill allocated to groups of CGUs at 31 March 2018 is:

MH Foods	£6.7 million	(2017: £6.7 million)
Butters and Spreads	£65.5 million	(2017: £65.5 million)
Cheese and Functional Ingredients	£14.1 million	(2017: £14.1 million)

Key assumptions on which management has based its cash flow projections

Gross margin – budgeted gross margins are based initially on actual margins achieved in the preceding year further adjusted for projected input and output price changes, volume changes, initiatives implemented and associated efficiency improvements. The budgeted margins form the basis for strategic plans, which incorporate longer-term market trends.

Discount rates – discount rates are pre-tax and calculated by reference to average industry gearing levels, the cost of debt and the cost of equity based on the capital asset pricing model and CGU-specific risk factors.

Raw materials prices – budgets are prepared using the most up to date price and forecast price data available. This is based on forward prices in the market place adjusted for any contracted prices at the time of forecast. The key resources are milk, vegetable oils, fuel oil, diesel, gas and electricity and packaging costs.

Growth rate estimates – for periods beyond the length of the strategic plans, growth estimates are based upon published industry research adjusted downwards to reflect the risk of extrapolating growth beyond a three year time frame.

The Directors consider the assumptions used to be consistent with the historical performance of each CGU where appropriate and to be realistically achievable in the light of economic and industry measures and forecasts.

2018 and 2017

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the Butters and Spreads, MH Foods and Cheese and Functional Ingredients CGUs, management believes that no reasonably possible change in the above key assumptions would cause the carrying value of those units to exceed their recoverable amount.

13 Intangible assets

	Assets in the course of construction £m	Internally generated £m	Acquired intangibles £m	Total £m
Cost				
At 31 March 2016	3.5	5.4	8.7	17.6
Additions	4.2	-	-	4.2
Disposal	-	(3.5)	-	(3.5)
Transfers and reclassifications	(3.5)	6.1	(2.6)	-
At 31 March 2017	4.2	8.0	6.1	18.3
Additions	9.2	-	-	9.2
Disposal	-	-	-	-
Transfers and reclassifications	-	-	-	-
At 31 March 2018	**13.4**	**8.0**	**6.1**	**27.5**
Accumulated amortisation				
At 31 March 2016	-	2.2	4.3	6.5
Amortisation for the year – continuing	-	0.5	0.4	0.9
Disposals	-	(3.5)	-	(3.5)
Transfers and reclassifications	-	2.3	(2.3)	-
At 31 March 2017	-	1.5	2.4	3.9
Amortisation for the year – continuing	-	2.7	0.4	3.1
Disposal	-	-	-	-
Transfers and reclassifications	-	-	-	-
At 31 March 2018	**-**	**4.2**	**2.8**	**7.0**
Net book amount at 31 March 2018	**13.4**	**3.8**	**3.3**	**20.5**
Net book amount at 31 March 2017	4.2	6.5	3.7	14.4

In the year ending 31 March 2018, additions to assets in the course of construction of £9.2 million (2017: £4.2 million) comprised third party system support costs relating to a new enterprise planning system of £8.7 million (2017: £3.7 million) and product development costs of £0.5 million (2017: £0.5 million).

Internally generated intangible assets comprise software development and implementation costs across manufacturing sites and head office and product development where the future recoverability can be reasonably assured under IAS 38 'Intangible Assets'.

Acquired intangibles comprise brands acquired with the acquisition of businesses. The largest component within acquired intangibles is the 'Frylight' brand acquired with the acquisition of Morehands Limited (MH Foods Limited) in June 2011. A useful life of 15 years has been assumed for this brand, with 8 years remaining. The carrying value of the Frylight brand at 31 March 2018 is £3.3 million (2017: £3.7 million).

14 Non – current assets held for sale

	2018 £m	2017 £m
Non-current assets held for sale	**3.4**	7.4

Non-current assets held for sale of £3.4 million represent properties owned by the Group, comprising closed production facilities, that management has committed to sell and where the completion of the sale within twelve months of the classification date is highly probable. The held for sale value represents the lower of carrying value and fair value less costs to sell. Any future profit on disposal of the closed depots will be recognised as Other Income – property within the Income Statement. Any future profit on disposal of the closed production facilities will be recognised under exceptional items within the Income Statement.

15 Financial liabilities

	2018 £m	2017 £m
Current		
Obligations under finance leases	**1.1**	1.5
Loan notes (at amortised cost)	**17.8**	11.9
Debt issuance costs	**(0.6)**	(0.6)
Financial liabilities - Borrowings	**18.3**	12.8
Cross currency swaps (cash flow hedges)	**-**	0.1
Forward currency contracts (at fair value: cash flow hedge)	**-**	0.2
Financial liabilities - Derivative financial instruments	**-**	0.3
Current financial liabilities	**18.3**	13.1
Non-current		
Obligations under finance leases	**-**	1.0
Loan notes (at amortised cost)	**117.1**	146.0
Bank loans (at amortised cost)	**159.0**	128.0
Debt issuance costs	**(0.6)**	(0.8)
Financial liabilities - Borrowings	**275.5**	274.2
Cross currency swaps (cash flow hedges)	**1.0**	-
Financial liabilities - Derivative financial instruments	**1.0**	-
Non-current financial liabilities	**276.5**	274.2

All derivative financial instruments are fair valued at each balance sheet date and all comprise Level 2 valuations under IFRS 13: 'Fair Value Measurement', namely, that they are based on inputs observable directly (from prices) or indirectly (derived from prices).

Interest bearing loans and borrowings
The effective interest rates on loans and borrowings at the balance sheet date were as follows:

		Maturity	2018 £m	Effective Interest rate at March 2018	2017 £m	Effective Interest rate at March 2017
Current						
Loan notes:	Euro swapped into £	April 2017	**-**	5.53%	**9.1**	5.53%
	Sterling	April 2017	**-**	5.84%	**2.8**	5.84%
	US$ swapped into £	November 2018	**17.8**	3.87%	**20.0**	3.87%
Finance leases			**1.1**	3.61%	**1.5**	3.61%
Debt issuance costs			**(0.6)**		**(0.6)**	
			18.3		**32.8**	
Non-current						
Revolving credit facilities:						
	Sterling floating	October 2020	**80.0**	LIBOR + 160bps	**80.0**	LIBOR + 150bps
	Sterling floating	October 2020	**79.0**	LIBOR + 190bps	**48.0**	LIBOR + 170bps
Loan notes:	US$ swapped into £	November 2021	**40.1**	4.52%	**45.0**	4.52%
	US$ swapped into £	March 2023	**32.0**	3.33%	**36.0**	3.33%
	Sterling	March 2026	**45.0**	3.34%	**45.0**	3.34%
Finance Leases			**-**	3.61%	**1.0**	3.61%
Debt issuance costs			**(0.6)**		**(0.8)**	
			275.5		**254.2**	

On 4 April 2017, the Group repaid €10.7 million (£9.2 million) and £2.8 million of 2007 fixed coupon loan notes on maturity.

On 25 September 2017 the Group extended the three year £80 million tranche of its 2015 revolving credit facility for a further two years. All tranches of the £240 million facility will expire on 6 October 2020. The upfront debt issuance costs in respect of this facility amounted to £1.6 million and these are being charged to the consolidated income statement over the expected life of the facility. There were no debt issuance costs charged to the income statement relating to the cancelled facility in the prior year.

The Group is subject to a number of covenants in relation to its borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants specify a maximum net debt to EBITDA ratio of 3.5 times and minimum interest cover ratio of 3.0 times. No covenants were contravened in the year ended 31 March 2018 (2017: None).

16 Retirement benefit obligations

The Group has a defined benefit pension scheme (Dairy Crest Group Pension Fund), which is closed to future service accrual and a defined contribution scheme (Dairy Crest Group defined contribution scheme).

Defined Benefit Pension Scheme

The Dairy Crest Group Pension Fund ('the Fund') is a final salary defined benefit pension scheme, which was closed to future service accrual from 1 April 2010 and had been closed to new joiners from 30 June 2006. This pension scheme is a final salary scheme.

The Fund is administered by a corporate trustee which is legally separate from the Company. The Trustee's directors comprise representatives of both the employer and employees, plus a professional trustee. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

The Company and Trustee have agreed a long-term strategy for reducing investment risk as and where appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets which perform in line with the liabilities of the plan so as to protect against inflation being higher than expected. In December 2008 and June 2009, certain obligations relating to retired members were hedged by the purchase of annuity contracts.

During the financial year, a Flexible Retirement Option ('FRO') exercise was carried out. This enabled deferred pensioners aged 55 and over to take cash equivalent transfer values (or trivial commutation lump sums, where applicable), with financial advice paid for by the Company. Transfer values totalling £11.7 million were accepted. This resulted in a settlement gain before costs of £1.6 million, representing IAS19 liabilities extinguished of £13.3 million less amounts paid of £11.7 million. In the prior year, an FRO exercise was carried out which resulted in a settlement gain before costs of £2.0 million, representing IAS 19 liabilities extinguished of £18.8 million less amounts paid of £16.8 million.

UK legislation requires that pension schemes are funded prudently. On 31 August 2017, the Group and the Trustee of the Fund finalised the 31 March 2016 funding valuation. The full actuarial valuation was carried out by the Fund’s independent actuary using the projected unit credit method. Full actuarial valuations are carried out triennially. This valuation resulted in a deficit of £100.0 million compared to the IAS19 deficit of £42.5 million reported at that date. Under the latest schedule of contributions, which was signed on 31 August 2017, the level of contributions is £10 million per annum from April 2017 to March 2018, then £15 million per annum until March 2019 and then £20 million per annum until March 2022.

As part of the overall package of funding, the Group and the Trustee formally agreed to change the measurement of inflation used for Fund pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI). CPI will therefore apply for Fund pension increases from 25 March 2018 onwards. It was calculated that as at 31 August 2017, the Fund's defined benefit obligation was reduced from £1,323.0 million to £1,191.5 million, a reduction of £131.5 million. This has been factored into the IAS19 valuation of the retirement benefit obligation as at 31 March 2018 and has been treated as a negative past service cost.

The Fund duration is an indicator of the weighted-average time until benefit payments are made. For the Fund as a whole, the duration is around 19 years reflecting the approximate split of the defined benefit obligation (including insured pensioners) between deferred members (duration of 25 years), current non-insured pensioners (duration of 14 years) and insured pensioners (duration of 10 years).

The principal risks associated with the Group's defined benefit pension arrangements are as follows:

Asset Volatility
The liabilities are calculated using the discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Fund holds a significant proportion in a range of return-seeking assets which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Fund's long-term objectives.

Changes in Bond Yields
A decrease in corporate bond yields will increase the value placed on the Fund's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Fund's bond holdings.

Inflation Risk
A significant portion of the Fund's benefit obligations are linked to inflation, and higher expected future inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in expected future inflation will also increase the deficit.

Longevity Risk
The majority of the Fund's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in liabilities.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension ('GMP'). The UK Government intends to implement legislation which could result in higher benefits for some members. This would increase the defined benefit obligation of the Fund. At this stage, it is not possible to quantify the impact of this change.

16 Retirement benefit obligations (continued)

The following tables summarise the components recognised in the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income.

Defined benefit obligation		2018 £m	2017 £m
Fair value of scheme assets:	- Equities	**-**	-
	- Bonds and cash	**779.9**	747.0
	- Equity return swaps valuation*	**(0.5)**	18.6
	- Property and other	**115.4**	115.5
	- Insured retirement obligations	**288.1**	310.6
		1,182.9	1,191.7
Defined benefit obligation:	- Uninsured retirement obligations**	**(825.8)**	(994.0)
	- Insured retirement obligations	**(263.2)**	(307.3)
Total defined benefit obligation		**(1,089.0)**	(1,301.3)
Net surplus / (liability) recognised in the balance sheet		**93.9**	(109.6)
Related deferred tax (liability)/asset		**(8.7)**	18.6
Net pension surplus / (liability)		**85.2**	(91.0)

* Comprises a positive synthetic equity exposure of £42.7 million (2017: £157.5 million) and a negative LIBOR exposure of £43.2 million (2017: £138.9 million).

** Includes obligations to deferred members of £542.0 million (2017: £676.9 million) and non-insured members of £283.8 million (2017: £317.1 million).

The Trust Deed provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the Plan is recognised in full.

Amounts recognised in consolidated income statement	2018 £m	2017 £m
Administration expenses	**(1.0)**	(1.0)
Settlement gain	**1.6**	2.0
Past service cost (change from RPI to CPI)	**131.5**	-
Other finance costs - pensions	**(0.7)**	(0.8)
Gain before tax	**131.4**	0.2
Deferred tax	**(25.0)**	(0.3)
Gain / (loss) for the year	**106.4**	(0.1)

Amounts recognised in other comprehensive income	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest)	**9.5**	152.5
Experience (losses) / gains arising on scheme liabilities	**(10.9)**	30.6
Actuarial gains due to changes in the demographic assumptions	**25.9**	-
Actuarial gains / (losses) due to changes in the financial assumptions	**36.6**	(275.6)
Net actuarial gain / (loss)	**61.1**	(92.5)
Movement in liability for unrecoverable notional surplus	**-**	12.1
Recognised in other comprehensive income	**61.1**	(80.4)
Related tax	**(10.3)**	10.7
Net actuarial gain / (loss) recognised in other comprehensive income	**50.8**	(69.7)

Actual returns on plan assets were £37.7 million (2017: £188.4 million).

16 Retirement benefit obligations (continued)

Movement in the present value of the defined benefit obligations are as follows:	**2018 £m**	2017 £m
Opening defined benefit obligation	**(1,301.3)**	(1,074.8)
Interest cost	**(28.8)**	(36.7)
Actuarial gains arising from changes in demographic assumptions	**25.9**	-
Actuarial gains / (losses) arising from changes in financial assumptions	**36.6**	(275.6)
Actuarial (losses) / gains arising from experience	**(10.9)**	30.6
Benefits paid	**56.4**	53.2
Past service costs (including curtailments)	**131.5**	-
Settlement gains	**1.6**	2.0
Closing defined benefit obligation	**(1,089.0)**	(1,301.3)

Movement in the fair value of Fund assets are as follows:	**2018 £m**	2017 £m
Opening fair value of Fund assets	**1,191.7**	1,044.4
Interest income on Fund assets	**28.2**	35.9
Re-measurement gains on Fund assets	**9.5**	152.5
Contributions by employer	**10.9**	13.1
Administration costs incurred	**(1.0)**	(1.0)
Benefits paid out	**(56.4)**	(53.2)
Closing fair value of Fund assets	**1,182.9**	1,191.7

The Fund's assets are invested in the following asset classes (all assets have a quoted market value in an active market with the exception of property, annuity policy, which is valued based on the corresponding liability, and cash).

Assets	**2018 £m**	2017 £m	2016 £m
Equities :			
United Kingdom	**2.8**	42.8	35.0
North America	**26.8**	62.4	46.3
Europe (ex UK)	**5.1**	22.8	17.9
Japan	**3.9**	17.9	12.2
Asia (ex Japan)	**4.1**	11.6	8.5
Emerging Markets	**-**	-	15.4
Global Small Cap	**-**	-	16.1
Cash/LIBOR Synthetic Equity	**(43.2)**	(138.9)	(105.8)
Emerging Market Debt *	**-**	55.0	52.3
Multi Asset Credit **	**71.8**	69.1	62.0
Insurance Linked Securities ***	**31.1**	37.6	31.7
Absolute Return Bonds *****	**33.7**	33.5	32.5
Bonds:			
Corporate Bonds	**209.0**	203.9	123.8
Liability Driven Investments *******	**349.0**	305.9	225.3
Annuity Policy	**288.1**	310.6	291.3
Property	**84.3**	77.9	82.9
Cash	**116.4**	79.6	97.0
Total	**1,182.9**	1,191.7	1,044.4

Equities are a combination of a positive synthetic equity exposure of £42.7 million (2017: £157.5 million) and a negative LIBOR exposure of £43.2 million (2017: £138.9 million).

16 Retirement benefit obligations (continued)

The Group does not use any of the pension fund assets.

* This is debt issued by emerging market countries denominated in the emerging market's domestic currency. The debt is almost entirely issued by governments and not by corporations. Investors benefit from higher yields on the bonds due to the additional risks of investing in emerging market countries, compared to developed countries, and it is also expected that emerging market currencies will appreciate over time relative to developed countries.

** Multi Asset Credit strategies invest globally in a wide range of credit-based asset classes which include bank loans, high yield bonds, securitised debt, emerging market debt and distressed debt of non-investment grade. The investment strategies will also allocate amounts in investment grade credit, sovereign bonds and cash for defensive reasons. The strategies are opportunistic and allocate dynamically to the best opportunities within the credit market from an asset allocation and individual security selection perspective.

*** Insurance linked securities are event-linked investments which allow investors outside the insurance industry to access insurance premiums for assuming various forms and degrees of insurance risk. The underlying risk premium is a type of investment risk where the event is linked to natural or man-made catastrophes. The premium paid to the investor represents compensation for the "expected loss" due to the uncertainty around the size and timing of the insured event.

**** Absolute Return Bond strategies are designed to deliver a positive return in all market environments and will take advantage of numerous alpha opportunities within the fixed income universe. The objective of the strategy is to capture returns from active management in a number of areas within fixed income including interest rates, currencies, asset allocation and security selection. The strategy will have long and short positions and employ a degree of leverage. The strategies tend to have low sensitivity to the direction of interest rates and credit.

***** Insight have been appointed to manage the Liability Driven Investment ('LDI') portfolio for the Fund. The objective is to hedge a proportion of the Fund's liabilities against changes in interest rates and inflation expectations by investing in assets that are similarly sensitive to changes in interest rates and inflation expectations. Insight will seek to add interest and inflation exposure to the LDI portfolio over time in line with parameters that have been set by the Trustee. Insight are permitted to use a range of swaps and gilt based derivative instruments as well as physical bonds to structure the liability hedge for the Fund. In addition, Insight are responsible for monitoring market yields against a number of pre-set yield triggers and will increase the level of hedging as and when the triggers are met.

The principal assumptions used in determining retirement benefit obligations for the Fund are shown below:

	2018	2017	2016
	%	%	%
Key assumptions:			
Price inflation (RPI)	**3.3**	3.3	3.2
Price inflation (CPI)	**2.2**	2.2	2.1
Pension increases (Pre 1993 - RPI to 7% / annum)	**3.3**	3.3	3.2
Pension increases (Pre 1993 - CPI to 7% / annum)	**2.2**	-	-
Pension increases (1993 to 2006 – RPI to 5% / annum)	**3.2**	3.2	3.1
Pension increases (1993 to 2006 – CPI to 5% / annum)	**2.2**	-	-
Pension increases (Post 2006 - RPI to 4% / annum)	**3.0**	3.0	2.9
Pension increases (Post 2006 – CPI to 4% / annum)	**2.2**	-	-
Life expectancy at 65 for a male currently aged 50 (years)	**23.4**	24.1	24.0
Average expected remaining life of a 65 year old retired male (years)	**21.9**	22.5	22.4
Life expectancy at 65 for a female currently aged 50 (years)	**26.5**	27.0	26.9
Average expected remaining life of a 65 year old retired female (years)	**24.5**	24.8	24.7
Discount rate	**2.6**	2.4	3.5

The financial assumptions reflect the nature and term of the Fund's liabilities. From March 2018, the Fund moved to CPI indexation for pensions in payment; RPI increase assumptions have been shown above for comparison. The mortality assumptions are based on analysis of the Fund members, and allow for expected future improvements in mortality rates.

It has been assumed that members exchange 25% of their pension for a cash lump sum at retirement, on terms 15% lower than the technical provisions basis. (An assumption of 10% lower than the technical provisions basis was used at 31 March 2017 and 31 March 2016). 30% of deferred members are assumed to take the pension increase exchange (PIE) option at retirement.

16 Retirement benefit obligations (continued)

Sensitivity to changes in assumptions
The key assumptions used for IAS 19 are discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

	Expected Expense for 2018/19			
	Service Cost £m	Net Interest £m	Total P&L Impact £m	March 2018 Surplus £m
Current Figures	1.0	(2.6)	(1.6)	93.9
Effect of a 0.1% decrease in the discount rate	-	0.5	0.5	(17.4)
Recalculated value	1.0	(2.1)	(1.1)	76.5
Effect of a 0.1% increase in the inflation assumption	-	0.3	0.3	(12.5)
Recalculated value	1.0	(2.3)	(1.3)	81.4
Effect of a 1 year increase in life expectancy	-	0.8	0.8	(30.4)
Recalculated value	1.0	(1.8)	(0.8)	63.5

The above sensitivities assume that, with the exception of the annuity contracts, the Fund's assets remain unchanged due to changes in assumptions, but in practice changes in market interest and inflation rates will also affect the value of the Fund's assets. The Company and Trustee have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the Fund by investing in assets which perform in line with the liabilities of the Fund. In December 2008 and June 2009, certain obligations relating to retired members were fully hedged by the purchase of annuity contracts. The Fund's other investments include matching assets which protect against changes in bond yields and against inflation risk. The respective interest rate and inflation hedge ratios for these assets as at 31 March 2018 were both 55% of those obligations not covered by annuity contracts.

The Company recognises no liabilities on its balance sheet, or charges or credits in its income statement or statement of recognised income and expense in relation to the Fund. The legal sponsor of the Fund is Dairy Crest Limited.

Defined Contribution Pension Scheme

The Group has charged £2.0 million in respect of the Dairy Crest Group defined contribution scheme in the year ended 31 March 2018 (2017: £2.0 million).

17 Trade and other payables

	2018	2017
	£m	£m
Trade payables*	**41.4**	45.8
Other tax and social security	**1.3**	1.2
Other creditors*	**3.0**	6.4
Accruals*	**26.9**	25.7
	72.6	79.1

*Financial liabilities at amortised cost.

Included within accruals is £7.3 million in relation to promotional funding which is subject to a degree of estimation uncertainty (2017: £7.6 million). The accruals relating to promotional funding are calculated based on an estimated redemption rate of the promotion. The customer will claim the funding retrospectively based on the performance of the promotion. There has been a reduction in accruals relating to promotional funding in the period reflecting a growing trend towards off-invoice promotional funding from retrospective promotional funding.

Notes to the preliminary announcement

18 Provisions

	Site restructuring and rationalisation £m	Dairies disposal provision £m	Dilapidation provision £m	Total £m
As at 1 April 2017	2.3	0.2	2.2	4.7
Utilised during the year	(0.5)	(0.2)	(0.2)	(0.9)
At 31 March 2018	**1.8**	**-**	**2.0**	**3.8**
Current	1.8	-	-	1.8
Non-Current	-	-	2.0	2.0
At 1 April 2016	5.0	3.0	2.0	10.0
Utilised during the year	(2.7)	(2.8)	-	(5.5)
Charged during the year	-	-	0.2	0.2
At 31 March 2017	2.3	0.2	2.2	4.7
Current	2.3	0.2	0.2	2.7
Non-Current	**-**	-	2.0	2.0

Restructuring and rationalisation of operating sites

In 2016, the Group provided through exceptional operating items, decommissioning and demolition costs in relation to the closure of the Chard site of £4.3 million. The Group has paid £0.5 million of these costs in the year ending 31 March 2018 (2017: £2.7 million) and expects the remaining provision to be utilised in the year ending 31 March 2019.

Dairies disposal provision

At 31 March 2016, the Group held a provision of £3.0 million for future expected costs in relation to the disposal of the Dairies operation to Muller UK & Ireland Group LLP on 26 December 2015. The Group has paid £0.2 million of these costs in the year ending 31 March 2018 (2017: £2.8 million) utilising the remainder of this provision in the year.

Dilapidation provision

At 31 March 2017, the Group held a provision relating to leasehold property dilapidation liabilities on properties where the Group considers there to be a high likelihood of exiting when the lease term expires. The payment of this provision would occur following vacation of the respective properties. The Group has paid £0.2 million of these costs in the year ending 31 March 2018. The remaining £2.0 million relates to properties where the lease term expires in the year ending 31 March 2020.

19 Cash flow from operating activities

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m
Profit before taxation - continuing operations	**179.2**	40.3
Loss before taxation - discontinued operations	**-**	(4.6)
Finance costs and other finance income - continuing operations	**10.2**	8.5
Loss on disposal of Dairies operation	**-**	2.5
Profit on operations	**189.4**	46.7
Depreciation	**17.7**	14.9
Amortisation of internally generated intangible assets	**0.7**	0.5
Amortisation of acquired intangible assets	**0.4**	0.4
Impairment of investment	**-**	0.5
Difference between cash outflow on exceptional items and amounts recognised in the income statement (excluding disposal of Dairies operation)	**(127.2)**	(6.5)
Release of grants	**(1.5)**	(1.6)
Share-based payments	**1.6**	1.2
Profit on disposal of depots	**(2.4)**	(3.0)
Difference between pension contributions paid and amounts recognised in the income statement	**(11.5)**	(14.1)
R&D tax credits	**(0.6)**	(0.1)
Increase in inventories	**(34.4)**	(10.5)
Decrease in receivables	**4.4**	9.3
Decrease in payables	**(2.9)**	(4.9)
Cash generated from operations	**33.7**	32.8

20 Analysis of net debt

	At 1 April 2017 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	**At 31 March 2018 £m**
Borrowings (current)**	(11.9)	11.9	(17.8)	-	**(17.8)**
Borrowings (non-current)	(274.0)	(31.0)	17.8	11.1	**(276.1)**
Finance leases***	(2.5)	1.4	-	-	**(1.1)**
Debt issuance costs	1.4	0.4	(0.6)	-	**1.2**
Financing liabilities	(287.0)	(17.3)	(0.6)	11.1	**(293.8)**
Less:					
Debt issuance costs excluded	(1.4)	(0.4)	0.6	-	**(1.2)**
Impact of cross-currency swaps *	17.7	0.1	-	(11.1)	**6.7**
Net financing liabilities	(270.7)	(17.6)	-	-	**(288.3)**
Add:					
Cash and cash equivalents	20.9	1.7	-	-	**22.6**
Net debt	(249.8)	(15.9)	-	-	**(265.7)**

	At 1 April 2016 £m	Cash flow £m	Non-cash movement £m	Exchange movement £m	At 31 March 2017 £m
Borrowings (current)**	(95.6)	95.6	(11.3)	(0.6)	(11.9)
Borrowings (non-current)	(249.2)	(23.0)	11.3	(13.1)	(274.0)
Finance leases***	(3.9)	1.5	(0.1)	-	(2.5)
Debt issuance costs	1.9	0.4	(0.9)	-	1.4
Financing liabilities	(346.8)	74.5	(1.0)	(13.7)	(287.0)
Less:					
Debt issuance costs excluded	(1.9)	(0.4)	0.9	-	(1.4)
Impact of cross-currency swaps *	19.4	(15.4)	-	13.7	17.7
Net financing liabilities	(329.3)	58.7	(0.1)	-	(270.7)
Add:					
Cash and cash equivalents	100.3	(79.4)	-	-	20.9
Net debt	(229.0)	(20.7)	(0.1)	-	(249.8)

* The Group has $126.3 million of loan notes against which cross-currency swaps have been put in place to fix interest and principal repayments in Sterling (March 2017: $126.3 million and €10.7 million). Under IFRS, currency borrowings are retranslated into Sterling at year end exchange rates. The cross-currency swaps are recorded at fair value and incorporate movements in both market exchange rates and interest rates. The Group defines net debt so as to include the effective Sterling liability where cross-currency swaps have been used to convert foreign currency borrowings into Sterling. The £6.7 million adjustment included in the above (March 2017: £17.7 million) converts the Sterling equivalent of Dollar and Euro loan notes from year end exchange rates (£89.9 million (March 2017: £110.1 million)) to the fixed Sterling liability of £83.2 million (March 2017: £92.3 million).

** During the year the Group repaid €10.7 million (£9.2 million) and £2.8 million of 2007 fixed coupon loan notes on maturity. The £11.9 million cash flow in respect of the repayment is reflected in the table under borrowings (current) of £11.9 million and the impact of cross-currency swaps of £nil million.

*** Finance lease non-cash movement in 2017 relates to the recognition of the agreement of a secondary lease term for assets at Nuneaton.

Notes to the preliminary announcement

21 Contingent liabilities

Dilapidations liability of Chadwell Heath

Under the terms of the sale and purchase agreement of the Dairies operation, the Group has a potential dilapidations liability to 26 December 2015 in relation to the Chadwell Heath site. The lease does not end until July 2032, with break clauses in July 2022 and July 2027. Muller UK & Ireland Group LLP have announced they intend to close the site in 2018, however any obligations are dependent on the intentions of the landlord in respect of the site. The Directors are not quantifying the potential liability in respect of this obligation because to do so may be prejudicial to the interests of the Group as the matter may be subject to negotiation or judicial proceedings. There has been no change in the Group's position on this contingent liability in the year ended 31 March 2018.

Litigation in relation to the capital project at Davidstow

At 31 March 2017, there were a number of contractual disputes outstanding in respect of the demineralised whey and GOS capital project at Davidstow. In a number of instances, claims were made by the Group and in others, claims were made against the Group. In the year ended 31 March 2018, settlement agreements were put in place in respect of a number of the most significant disputes. At 31 March 2018 there was one outstanding claim against the Group. The Group has rebutted this claim but nonetheless accrued for professional fees in respect of it. The Group is not disclosing detail of either the claims settled or the outstanding claim, due to the legal sensitivity of the matter. It is the opinion of the Directors that there is no significant liability that would require being provided for as at 31 March 2018.

22 Alternative performance measures

The Group uses a number of alternative performance measures (APMs) to assess the performance of the Group which are not defined under IFRS. The Directors use these performance measures to assess the underlying performance of the Group and they are used to set targets as disclosed in the Directors Remuneration Report. As such these measures should be considered alongside the IFRS measures. Reconciliations from statutory performance measures to the APMs are shown below.

Adjusted profit before tax

Adjusted profit before tax represents the Group's profit before tax from continuing operations, before exceptional items, other finance expense – pensions and amortisation from acquired intangible assets. The Directors consider this measure appropriate because it reports the underlying performance of the Group excluding the material values that can be associated with exceptional items and volatility of the pension interest. This allows the Directors to measure the longer-term performance of the Group on a comparable basis.

Reconciliation of profit before tax from continuing operations to adjusted profit before tax

		2018	2017
		£m	£m
Profit before tax from continuing operations	Face of consolidate income statement	**179.2**	40.3
Adjust for: Exceptional items	Note 5	**(118.0)**	19.1
Adjust for: Amortisation of acquired intangible assets	Note 13	**0.4**	0.4
Adjust for: Other finance expense – pensions	Note 16	**0.7**	0.8
Adjusted profit before tax		**62.3**	60.6

Product group profit

Product group profit represents the Group's operating profit or profit from continuing operations, before exceptional items. It is adjusted to remove acquired intangible asset amortisation. The Directors consider this an appropriate measure for the Group because it represents the underlying profitability of the Group excluding the impact of any changes to the Group's financing structure thus making it an appropriate measure to communicate internally where the majority of employees are not able to influence decisions around the Group's financing structure or acquisition decisions.

Reconciliation of profit on continuing operations to product group profit

		2018	2017
		£m	£m
Profit on continuing operations	Face of consolidated income statement	**189.4**	48.8
Adjust for: Exceptional items	Note 5	**(118.0)**	19.1
Adjust for: Amortisation from acquired intangible assets	Note 13	**0.4**	0.4
Adjusted profit before tax		**71.8**	68.3

22 Alternative performance measures (continued)

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is a widely used performance measure which the Directors consider appropriate to compare the performance of the Group with other companies excluding variable factors such as tax and depreciation rates. The Group is required to be within a certain net debt:EBITDA ratio under its bank covenants and therefore it becomes an important measure for the Group. The Directors are required to meet EBITDA targets under their long term incentive plans.

Reconciliation of profit on continuing operations to EBITDA

		2018 £m	2017 £m
Profit on continuing operations	Face of consolidated income statement	**189.4**	48.8
Adjust for: Exceptional items	Note 5	**(118.0)**	19.1
Adjust for: Depreciation and amortisation	*	**18.8**	15.8
Earnings before interest, tax, depreciation and amortisation		**90.2**	83.7

*Depreciation and amortisation charged to profit on continuing operations before exceptional items

Adjusted earnings per share

Adjusted earnings per share represent the earnings per share adjusted for exceptional items, amortisation of acquired intangible assets and pension interest. The Directors consider this measure to be appropriate because it measures the underlying earnings per share of the Group excluding the material values that can be associated with exceptional items and volatility of the pension interest. This allows the Directors to measure the longer-term earning per share on a comparable basis.

A reconciliation of profit from continuing operations to adjusted earnings per share can be found in note 9.

Net debt

Net debt represents the Group's borrowings and is made up of interest bearing loans and borrowings and finance leases less cash and cash equivalents. The calculation of net debt excludes the fair value of derivative financial instruments with the exception of cross currency swaps to fix foreign currency debt in Sterling where they are designated as cash flow hedges. In this case the fixed Sterling debt, not the underlying foreign currency debt retranslated, is included in net debt. It includes any cash or borrowings included within disposal groups classified as held for sale and excludes unamortised upfront facility fees. The Directors consider this to be the key performance measure of the Group's debt position and balance sheet efficiency. The Directors are required to meet net debt targets under their long term incentive plans.

A reconciliation of financial liabilities to net debt can be found in note 20.

Free cash flow

Free cash flow represents the movement in net debt excluding dividend paid and cash flows associated with business acquisitions and disposals. The Directors consider this to be a key performance measure of the underlying cash generation of the business. The Directors are required to meet free cash flow targets under their bonus and long term incentive plans.

Reconciliation of movement in net debt to free cash flow

		2018 £m	2017 £m
Opening net debt		**(249.8)**	(229.0)
Closing net debt		**(265.7)**	(249.8)
Movement in net debt	Note 20	**(15.9)**	(20.8)
Adjust for: Dividend paid	Note 10	**31.6**	31.1
Adjust for: Repayment associated with sale of business	Face of consolidated cash flow statement	**-**	28.4
Free cash flow		**15.7**	38.7

Notes to the preliminary announcement

22 Alternative performance measures (continued)

Return on Capital Employed (ROCE)

ROCE is a widely used performance measure that the Directors consider appropriate to measure the balance sheet efficiency of the Group. The Directors are required to meet ROCE targets under their long term incentive plans.

ROCE is calculated by dividing the product group profit by the average net operating assets.

Reconciliation of total assets to operating assets

		2018	2017
		£m	£m
Total Assets	Face of consolidated balance sheet	**628.2**	557.1
Adjust for: Retirement benefit surplus	Note 16	**(93.9)**	-
Adjust for: Deferred tax asset	Note 7	**-**	(29.6)
Adjust for: Financial assets	Face of consolidated balance sheet	**(3.0)**	(12.3)
Adjust for: Cash and short-term deposits	Face of consolidated balance sheet	**(22.6)**	(20.9)
Add : Trade and other payables	Note 17	**(72.6)**	(79.1)
Net operating assets		**436.1**	415.2
Average net operating assets (13 month average)		**445.5**	444.1
Return on capital employed		**16.1%**	15.4%